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Viewing cable 06QUITO2138, A THOUSAND CHARIOTS IN THE FIELDS: CHINESE PLAYERS

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Understanding cables
Every cable message consists of three parts:

- The top box shows each cables unique reference number, when and by whom it originally was sent, and what its initial classification was.
- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
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Discussing cables
If you find meaningful or important information in a cable, please link directly to its unique reference number. Linking to a specific paragraph in the body of a cable is also possible by copying the appropriate link (to be found at theparagraph symbol). Please mark messages for social networking services like Twitter with the hash tags **#cablegate** and a hash containing the reference ID e.g. **#06QUITO2138**.

Reference ID	Created	Released	Classification	Origin
06QUITO2138	2006-08-25 12:31	2011-08-30 01:44	CONFIDENTIAL	Embassy Quito

Appears in these articles:
http://www.mcclatchydc.com/2011/05/16/114269/wikileaks-cables-show-oil-a-major.html

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VZCZCXYZ0004
OO RUEHWEB

DE RUEHQT #2138/01 2371231
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FM AMEMBASSY QUITO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5104
INFO RUEHBJ/AMEMBASSY BEIJING 0173
RUEHBO/AMEMBASSY BOGOTA 5904
RUEHBR/AMEMBASSY BRASILIA 3639
RUEHBU/AMEMBASSY BUENOS AIRES 0683
RUEHCV/AMEMBASSY CARACAS 1956
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RUEHME/AMEMBASSY MEXICO 1503
RUEHNE/AMEMBASSY NEW DELHI 0041
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RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L QUITO 002138

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TREASURY FOR SGOOCH, NSC FOR DTOMLINSON

E.O. 12958: DECL: 08/24/2016
TAGS: ECON EPET PINR PREL ETRD EC CN
SUBJECT: A THOUSAND CHARIOTS IN THE FIELDS: CHINESE PLAYERS IN ECUADOR'S OIL INDUSTRY

REF: A. A) 05 QUITO 2152

¶B. B) QUITO 1231
¶C. C) INR REPORT 06/10/2005

Classified By: EconOff Josh M. Cartin for reasons 1.4(b) and (d)

¶1. (C) Summary: With their $1.4 billion acquisition of Canadian EnCana, China's state oil companies announced their entrance as major players in Ecuador's and the region's petroleum industry. Now with active participation in at least five of Ecuador's petroleum blocks, and with further investments in the offing, Quito is playing host to a steady inflow of managerial, financial and technical representatives of China's major and minor oil companies. Their efforts and activities in Ecuador are both less coordinated and less harmonious than they may appear. End summary.

"The Heavy and the Swift..."

¶2. (C) The overseas arms of three major Chinese oil conglomerates, the China National Petroleum Company (CNPC), the China Petroleum Company (Sinopec) and Sinochem all are present and have ongoing operations in Ecuador. (Note: the fourth major Chinese oil conglomerate, the China National Overseas Oil Company (CNOOC), has concentrated its efforts on offshore drilling and does not operate in Ecuador). These companies own, invest in or operate individual assets in Ecuador, and in some cases work together through consortia. CNPC, for example, through its international arm, the China National Overseas Development Corporation (CNODC), operates CNPC International (Amazon), which solely possesses the concession to drill in Ecuador's Block 11. CNPC and Sinopec also are the 60-40 joint-investors in Andes Petroleum, the Ecuadorian operating entity that purchased the Ecuadorian assets of Canadian EnCana earlier this year (reftel a) and which is now the majority concessionaire for Blocks 14, 17, Tarapoa and Shiripuno. As part of the EnCana acquisitions, Andes purchased the former's 36% stake in the Oleoducto de Crudos Pesados (OCP) pipeline consortium and its 40% stake in the disputed Block 15, formerly run by Occidental Petroleum (Oxy). Andes' $1.4 billion purchase agreement with EnCana contained an indemnity clause specifying a refund of up to 20% of the total purchase price if the Oxy asset was seized by the Ecuadorian government. EnCana's ex-General Manager in Ecuador told EconOff that the companies currently "are working toward that".

¶3. (C) Sinochem, as its name implies, has its historical roots in chemical production, trading and sales, and, according to its local manager in Ecuador, is known in China as a fertilizer monopoly. Its integrated petroleum arm was established in 2002, In Ecuador Sinochem is a 15% joint investor-operator, together with Taiwan's Offshore Petroleum Investment Corp. (OPIC), of Block 16, of which Spanish Repsol is the majority shareholder. Sinochem's senior representative in Ecuador XXXXXXXXXXXX (protect) told EconOff that in Ecuador most of Sinochem's activities are in petroleum trading.

¶4. (C) Sinopec Services, a wholly-owned subsidiary of Sinopec, has a relatively large operation in Ecuador and contracts technical services such as equipment leasing, seismic studies and oilfield construction to the petroleum exploration companies in Ecuador. Sinopec Services has performed work for American companies such as Oxy. Several Ecuadorian engineers from state-owned Petroproduccion have traveled to China recently to participate in the analysis of seismic studies performed by Sinopec Services.

¶5. (C) EconOff has also met representatives from at least three other Chinese petroleum companies: Changqing Petroleum Exploration Bureau (CPEB), nominally under the control of CNPC, and Zhongyuan Petroleum Exploration Bureau (ZPEB) and Jiangsu Oil Exploration Corporation (JOECO), both nominally

under the control of Sinopec. These companies are legacy upstream companies apparently still directed by Chinese provincial and local governments. As China's domestic oil exploration opportunities have dried up, these bureaus have attempted to sell their expertise overseas.

"Subdued Tones Point To Disaffection..."

¶6. (C) EconOff spoke with Sinochem's XXXXXXXXXXXX and XXXXXXXXXXXX, a senior manager from Sinopec Services (protect), about the structure of Chinese petroleum companies in Ecuador. Regarding the structure of the Andes consortium, XXXXXXXXXXXX said that the 60-40 CNPC-Sinopec ownership structure leads to management tension and "long, fractious board meetings." Andes is by far China's most productive and lucrative operator with an output, at EnCana's previous production level, of approximately 200,000 barrels per day. Andes' senior executive in Ecuador, Dr. Zhang Xing (reftel b), is a CNPC man; the Sinopec counterpart at his level, Dr. Duan Zhibin, lives in China and visits Ecuador only occasionally. His deputy, Ding Jingjun, is thus the highest-level Sinopec officer resident in Ecuador but not an equal partner to XXXXXXXXXXXX. Sinochem's XXXXXXXXXXXX said that "the worst thing is for Chinese companies to work together. Chinese and foreign companies can work together without problems, but Chinese companies together are not good." XXXXXXXXXXXX said that Sinochem originally had planned to participate in the Andes consortium but pulled out. He said that "Sinochem actually cares about making money", while CNPC and Sinopec do not. This apparent disregard for profits by China's two majors echoes the sentiments of other industry contacts. Both XXXXXXXXXXXX and XXXXXXXXXXXX confirmed that CNPC Amazon's work on Block 11 has been unproductive: "they keep drilling, but there's no oil coming out."

¶7. (C) According to Sinopec Service's XXXXXXXXXXXX, his company subcontracts with the old provincial service bureaus to perform technical services: "we receive money from our clients, and then we pay the subcontractors." Sinopec Service's office in Quito thus appears mainly to be engaged in sales, business development and finance, with little in-house technical expertise permanently resident in Ecuador. EconOff asked how Sinopec Services chose which provincial service bureaus to employ, and XXXXXXXXXXXX replied that "the decisions are made back in China, depending on which service bureaus have relationships with Sinopec executives." According to XXXXXXXXXXXX, the service bureaus are not supposed to contract their services without passing through Sinopec or CNPC, but because of "poor management control in CNPC", CPEB managed to contract a perforation deal directly with American company City Oriente, its first foray into the private sector. City Oriente's local manager told us that CPEB drilled nine wells in its Block 27, and City Oriente had plans to expand the cooperation to twenty-one wells before it had to scale back plans due to the passage of the Hydrocarbons Law. The City Oriente manager said that although CPEB first started the work with shoddy equipment and low standards, they were "very compliant" in working with City Oriente to upgrade their rigs and safety standards.

"Cooking Pots Over The Campfires..."

¶8. (C) The profile of Chinese oil company staff in Ecuador is overwhelmingly male, on average between the ages of thirty and fifty years old. Most of these workers seem to be married but leave their families back in China. According to XXXXXXXXXXXX (protect), a XXXXXXXXXXXX manager of Sinopec Services, staff leave their families in China because Chinese educational options for their children in Ecuador are

nonexistent. Many of the staff live communally in apartments. The companies bring their own Chinese chefs to Ecuador, and the staff often eat their meals together in the communal apartments. In addition to raising the mean quality of Chinese food available in Ecuador, the influx of single, Chinese men into Quito has been a boon to Ecuador's nascent casino industry. We are aware of one ex-finance manager from CPEB who embezzled several thousand dollars from the company to finance his gambling habit.

Comment - Ecuador's "Entangling Ground"

¶9. (C) The entrance en masse of Chinese oil companies into Ecuador is a potent manifestation of China's national strategy of securing direct oil contracts around the world to reduce China's reliance on oil shipped from and through hotspots such as the Persian Gulf and the Straits of Malacca. Sinochem's XXXXXXXXXXXX, echoing many industry analysts, questioned this strategy, recommending a greater emphasis on maximizing profits from sales to the world oil markets. Nonetheless Chinese oil exploration activities are increasing in the region. Sinopec's XXXXXXXXXXXX told EconOff that Chinese oil companies will soon announce a new consortium with India's ONGC-Videsh in Colombia.

¶10. (C) Global contracts for the Chinese majors' service arms also offers valuable opportunities to increase their technical and managerial expertise, and we assume that the dozens of Chinese petroleum engineers coming through Quito on temporary projects will take these lessons home, furthering China's effort to create an integrated oil services company to rival Western companies like Schlumberger and Halliburton (reftel c).

¶11. (C) Acquisitions of efficiently-managed and productive operations such as EnCana's therefore serve both strategic objectives at once, but Ecuador has proven a difficult and expensive training ground for China. With the GOE's combination-punch of the Hydrocarbons Law and the Oxy contract caducity, the Chinese saw the value of their $1.4 billion EnCana acquisition shaved by about seventy percent (reftel b). Meanwhile CNPC reportedly faces periodic indigenous unrest around its heretofore unproductive Block ¶11. Chinese petroleum managers and diplomats, who appear to consult closely on all major issues, openly complain about the corruption and difficulty of doing business in Ecuador, but we see no sign of a tactical retreat. Indeed, if XXXXXXXXXXXX's pronouncement of a China-India joint-exploration venture in Colombia materializes, then that will be more evidence that, profits or losses, Chinese petroleros in South America are here to stay. End comment.

JEWELL